

BRANCH DISTRICT LIBRARY
FINANCIAL STATEMENTS
DECEMBER 31, 2008

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Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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INDEPENDENT AUDITOR'S REPORT

**To the Members of the Branch
District Library Board
Branch County, Michigan**

January 26, 2009

We have audited the accompanying financial statements of each major fund of the Branch District Library as of and for the year ended December 31, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit, also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The accompanying financial statements do not present government-wide financial statements to display the financial position and changes in the financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Library's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Branch District Library as of December 31, 2008 or the changes in its financial position for the year then ended.

**To the Members of the Branch
District Library Board
Branch County, Michigan**

January 26, 2009

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Branch District Library's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not include a management's discussion and analysis, which would present an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

A handwritten signature in cursive script that reads "Rumsey & Watkins PC".

RUMSEY & WATKINS, P.C.

BRANCH DISTRICT LIBRARY

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2008

	General Fund	Special Revenue Trust Fund
ASSETS		
Cash	\$ 276,380	\$ 75,620
Investments	290,551	-
Due from County	54,253	-
Due from City of Coldwater	9,216	-
Restricted assets:		
Cash	-	101,693
Investments	-	-
Total assets	<u>\$ 630,400</u>	<u>\$ 177,313</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 20,980	\$ 14
Accrued expenses	22,711	-
Deferred revenue	7,724	-
Total liabilities	51,415	14
FUND BALANCE		
Reserved	-	-
Designated	-	101,693
Undesignated	578,985	75,606
Total fund balance	<u>578,985</u>	<u>177,299</u>
Total liabilities and fund balance	<u>\$ 630,400</u>	<u>\$ 177,313</u>

See Notes to Financial Statements

Capital Projects Fund	Permanent Trust Fund	Total Governmental Funds
\$ 275,066	\$ -	\$ 627,066
-	-	290,551
-	-	54,253
-	-	9,216
-	52,000	153,693
-	90,134	90,134
<u>\$ 275,066</u>	<u>\$ 142,134</u>	<u>\$ 1,224,913</u>

\$ 24,865	\$ -	\$ 45,859
-	-	22,711
-	-	7,724
<u>24,865</u>	<u>-</u>	<u>76,294</u>
-	142,134	142,134
250,201	-	351,894
-	-	654,591
<u>250,201</u>	<u>142,134</u>	<u>1,148,619</u>
<u>\$ 275,066</u>	<u>\$ 142,134</u>	<u>\$ 1,224,913</u>

BRANCH DISTRICT LIBRARY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Special Revenue Trust Fund
REVENUES		
Taxes	\$ 650,431	\$ -
State aid	30,957	-
Charges for services	19,674	-
Penal fines	347,800	-
Interest earned	16,074	5,893
Donations	-	35,964
Reimbursements	41,850	-
Other revenue	14,858	-
	<hr/>	<hr/>
Total revenues	1,121,644	41,857
EXPENDITURES		
Cultural	1,060,778	3,673
Capital outlay	-	-
	<hr/>	<hr/>
Total expenditures	1,060,778	3,673
	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	60,866	38,184
OTHER SOURCES (USES)		
Transfers from (to) other funds	2,000	-
	<hr/>	<hr/>
Excess (deficiency) of revenues and other sources over expenditures and other uses	62,866	38,184
FUND BALANCE - BEGINNING	516,119	139,115
	<hr/>	<hr/>
FUND BALANCE - ENDING	\$ 578,985	\$ 177,299
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements

Capital Projects Fund	Permanent Trust Fund	Total Governmental Funds
\$ 106,524	\$ -	\$ 756,955
-	-	30,957
-	-	19,674
-	-	347,800
5,366	-	27,333
-	-	35,964
-	-	41,850
-	-	14,858
111,890	-	1,275,391
-	-	1,064,451
116,728	-	116,728
116,728	-	1,181,179
(4,838)	-	94,212
(2,000)	-	-
(6,838)	-	94,212
257,039	142,134	1,054,407
<u>\$ 250,201</u>	<u>\$ 142,134</u>	<u>\$ 1,148,619</u>

BRANCH DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Branch District Library conform to generally accepted accounting principles of the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

REPORTING ENTITY:

The Library was formed during 1991 under P.A. 24 and began operations as a separate entity on January 1, 1992. Previously, the Library was a component unit of the County of Branch. The Library operates under an appointed board of seven members and provides library services to the residents of Branch County. The financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships.

FUND FINANCIAL STATEMENTS:

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments are recorded when payment is due.

The Library reports the following governmental funds:

General Fund is the operating fund of the Library. It is used to account for all the Library's financial resources not required to be accounted for in another fund.

Special Revenue Trust Fund is used to account for donations received and expended for Library purposes.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: - Continued

Capital Projects Fund is used to account for the portion of the millage designated each year by the Board to be expended for capital outlay.

Permanent Trust Fund is used to account for the assets held by the Library in a trustee capacity for donations. The principle portion must remain intact, but the earnings may be used to achieve the objectives of the donor.

ASSETS, LIABILITIES AND NET ASSETS:

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at cost, which approximates fair market value. Pooled investment income is generally allocated to each fund using a weighted average.

Capital Assets - The Library implemented portions of the new financial model, as required by the provisions of GASB 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments ("GASB 34"). A portion of GASB No. 34 not implemented by the Library is the government-wide financial statements which display the full accrual financial position and changes in financial position of its government activities. Since the Library did not present government-wide financial statements, the governmental activities capital assets are not reported within the Library's financial statements as of December 31, 2008.

Compensated Absences - As of December 31, 2008, the Library was liable for compensated absences of unused vacation and sick pay for approximately \$53,500. Vacation and sick pay is earned, accumulated and paid on termination based upon the personnel policies governing the various employees.

The Library implemented portions of the new financial model as required by the provisions of GASB 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government’s (“GASB 34”). A portion of GASB No. 34 not implemented by the Library is the government-wide financial statements which display the full accrual financial position and changes in financial position of its government activities. Since the Library did not present the government-wide financial statements, the governmental activities long-term obligation of \$53,500 is not reported within the Library’s financial statements as of December 31, 2008.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS – Continued:

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change - In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The Library has implemented portions of GASB 34.

However, the Library did not present government-wide financial statements to display the financial position and changes in financial position using full accrual accounting for all the Library's activities. These statements would present the Library's governmental activities. In addition, the Library did not include a management's discussion and analysis, which would present an analysis of the financial performance for the year.

Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Library's governmental activities are not reasonably determinable. The Governmental Accounting Standards Board has determined that the management's discussion and analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Because of the effects of the matter discussed in the preceding paragraphs, the Library's financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Branch District Library as of December 31, 2008 or the changes in its financial position for the year then ended.

BASIS OF BUDGETING:

The Library adopted their annual budgets based on the modified accrual method of accounting. Expenditures were estimated by line item basis, but approved on a functional basis. The Library included an estimated beginning fund balance within the approved budgets. The budgets can only be amended by the Board. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by law. Revisions to the budgets were made during the year.

In the other supplemental information, the Library has provided line item detail for the General Fund for informational purposes only.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end may be reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

USE OF ESTIMATES:

The Library uses estimates and assumptions in the preparation of the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenditures.

NOTE B - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Library has designated financial institutions for the deposit of Library funds and has authorized the investment in certificates of deposit. The accounts maintained are checking, savings and certificates of deposit and are in accordance with statutory authority. The interest rates of the checking and savings accounts are at variable daily rates. The certificates of deposit are currently earning interest rates of 1.68% and 3.10%.

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE B - DEPOSITS AND INVESMENTS - Continued

Interest rate risk – In accordance with its investment policy, the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Library's cash requirements.

Credit risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The Library does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk – The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk for deposits – In the case of deposits, this is the risk that in the event of a financial institution failure, the Library's deposits may not be recovered. As of December 31, 2008, \$662,136 of the Library's bank balance of \$1,162,136 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk for investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Library will do business.

NOTE C – DUE FROM COUNTY

As of December 31, 2008, the Library has amounts due from the County of Branch in the amount of \$54,253 for penal fines.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE D – RESERVED AND DESIGNATED FUND BALANCE

Reserved and designated fund balances, as of December 31, 2008, are as follows:

Reserved:

Permanent Trust Fund:

M. Semmelroth Memorial	\$ 50,000
E. Dallen Memorial	2,000
G. Barnett Memorial	<u>90,134</u>
Total reserved fund balance	<u>\$ 142,134</u>

Designated:

Special Revenue Trust Fund:

E. Dallen Memorial	\$ 795
R. Fisher Memorial	23,929
G. Barnett Memorial	13,504
Bronson operations	<u>63,465</u>
Total Special Revenue Trust Fund	101,693

Capital Projects Fund:

Capital Outlay	<u>250,201</u>
Total designated fund balance	<u>\$ 351,894</u>

NOTE E – TAXES

The Library's property taxes are levied each December 1. Taxes are collected by the local governmental units within Branch County and are remitted to County of Branch, which in turn remits them to the Library.

The 2008 tax rate was .605 of a mill.

Personal property taxes are accounted for as revenue as received, therefore, no provision for uncollectible personal property taxes has been made in these financial statements.

BRANCH DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE F – TRANSFER FROM (TO) OTHER FUNDS

General Fund:

Transfer from Capital Projects Fund	<u>\$ 2,000</u>
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NOTE G – LEASE AGREEMENT

The library leases its facilities from the City of Coldwater. The initial term of the lease is for twenty-five years, with rent in the amount of \$1 per year.

NOTE H – DEFERRED COMPENSATION PLANS

The Library offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all Library employees, permits them to defer a portion of their salary until future years. The deferred compensation is generally not available to the employees until termination, retirement, death or unforeseeable emergency.

The Library funds all amounts of compensation deferred under the plan, at the direction of the covered employee, through investments approved by the plan's committee.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are, held in trust for the exclusive benefit of the participating employees and are not assessable by the Library or its creditors.

The Library has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

The Library has established Money Purchase Plan for the Library Director. The plan calls for contributions on the Director's behalf and contains no requirements for matching contributions from the participant. The Library contribution for the year ended December 31, 2008 amounted to \$4,000 and is recorded in the General Fund.

NOTE I – RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Library has purchased commercial insurance for the coverage of the above discussed events.

BRANCH DISTRICT LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Taxes	\$ 643,248	\$ 643,248	\$ 650,431
State aid	29,762	29,762	30,957
Charges for services	20,000	20,000	19,674
Penal fines	280,807	275,807	347,800
Interest earned	16,000	16,000	16,074
Reimbursements	56,933	56,933	41,850
Other revenue	10,000	10,000	14,858
Total revenues	1,056,750	1,051,750	1,121,644
EXPENDITURES			
Cultural	1,084,254	1,084,254	1,060,778
Excess (deficiency) of revenues over expenditures	(27,504)	(32,504)	60,866
OTHER SOURCES			
Transfer from other funds	22,000	2,000	2,000
Excess (deficiency) of revenues and other sources over expenditures	(5,504)	(30,504)	62,866
FUND BALANCE - BEGINNING	335,938	516,119	516,119
FUND BALANCE - ENDING	<u>\$ 330,434</u>	<u>\$ 485,615</u>	<u>\$ 578,985</u>

BRANCH DISTRICT LIBRARY
REQUIRED SUPPLEMENTAL INFORMATION
SPECIAL REVENUE TRUST FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Interest	\$ 8,000	\$ 8,000	\$ 5,893
Donations	<u>8,000</u>	<u>8,000</u>	<u>35,964</u>
Total revenues	16,000	16,000	41,857
EXPENDITURES			
Cultural	<u>13,500</u>	<u>13,500</u>	<u>3,673</u>
Excess of revenues over expenditures	2,500	2,500	38,184
FUND BALANCE - BEGINNING	<u>98,351</u>	<u>139,115</u>	<u>139,115</u>
FUND BALANCE - ENDING	<u><u>\$ 100,851</u></u>	<u><u>\$ 141,615</u></u>	<u><u>\$ 177,299</u></u>

BRANCH DISTRICT LIBRARY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2008

CULTURAL	Budget	Actual	Over (Under) Budget
Salaries	\$ 610,804	\$ 620,078	\$ 9,274
Payroll taxes	48,864	47,573	(1,291)
Workers' compensation	4,000	2,590	(1,410)
Longevity	2,850	1,975	(875)
Deferred compensation	4,000	4,000	-
Board per diem	2,500	2,050	(450)
Hospitalization	74,750	63,799	(10,951)
Employee relations	200	62	(138)
Education reimbursement	1,000	-	(1,000)
Contracted services	14,836	7,696	(7,140)
Training	2,000	1,111	(889)
Facilities rent	2,000	2,000	-
Telephone	8,000	6,949	(1,051)
Utilities	37,000	40,087	3,087
Insurance	13,000	12,103	(897)
Maintenance	40,000	45,994	5,994
Equipment maintenance	6,100	9,200	3,100
Network maintenance	26,000	13,037	(12,963)
Janitorial supplies	100	-	(100)
Operating supplies	12,000	8,060	(3,940)
Office supplies	12,000	18,407	6,407
Postage	3,050	3,248	198
Books	84,000	83,168	(832)
Periodicals	5,700	7,808	2,108
Audio/visual	17,000	16,065	(935)
Membership and dues	2,000	971	(1,029)
Transportation	8,000	7,256	(744)
Community promotions	7,000	6,752	(248)
Printing and publishing	3,000	1,497	(1,503)
Professional services	32,500	25,698	(6,802)
Correction of prior years' taxes	-	1,544	1,544
Total Cultural expenditures	<u>\$ 1,084,254</u>	<u>\$ 1,060,778</u>	<u>\$ (23,476)</u>

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

20 Tibbits Plaza * Coldwater, Michigan 49036
Phone (517) 279-7931 * Fax (517) 278-7087

January 26, 2009

To the Members of the
Branch District Library
Branch County, Michigan

We have audited the financial statements of Branch District Library as of and for the year ended December 31, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Branch District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Branch District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Branch District Library are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Library during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement was:

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$53,500 and is only reported as a footnote within the financial statement.

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

We have requested certain representations from management that are included in the management letter dated January 26, 2009.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the entities financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have discussed SAS #112 and the ability of the Library’s management to independently prepare the external audit report including all required financial statement disclosures.

Management has informed us they will utilize our technical expertise to assist in preparing the audited financial statements.

Other Audit Findings and Issues

In planning and performing our audit of the financial statements of the Branch District Library as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Branch District Library’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies constitute material weaknesses:

The Organization does not have control procedures in place or a member of management with sufficient skills to prepare financial statements in accordance with U.S. generally accepted accounting principles. As is common with smaller entities the Organization relies on its independent external auditors to assist in the preparation of the financial statements. Auditors by definition cannot be considered part of the Organization's internal controls. The Organization has evaluated the cost vs. benefit of preparing the financial statements and has determined it is in the best interest of the Organization to outsource this task to its external auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This communication is intended solely for the information and use of management, Members of the Branch District Library Board and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Rumsey & Watkins PC".

RUMSEY & WATKINS, P.C.